

**Testimony of Cheryl Cook-Schneider
Principal, Edward D. Jones & Co.
Before the Committee on Commerce
U.S. House of Representatives
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Mr. Chairman and members of the Committee, I am Cheryl Cook-Schneider, a principal of Edward D. Jones & Co. I appreciate the opportunity to appear before the Committee to present Edward D. Jones & Co.'s views concerning the modernization of financial institution regulation.

Edward D. Jones & Co. is an investment firm based in St. Louis, Missouri. We have 3,604 Investment Representatives in 3,563 branches in the United States and Canada, and serve approximately two million clients. Our firm is unusual in that it serves individual investors exclusively. We do not serve institutional clients nor do we cater to clients with large portfolios. Many of our branch offices are located in small communities where our principal competition for financial business is the local bank.

The Current, Outdated Regulatory Structure

The regulatory structure in which the financial services industry operates today was created decades ago, at a time when the world and the economy were very different. At that time, the volume of financial transactions, and the size of those transactions, was much smaller than today. Transactions tended to be local or national in nature. Today, international transactions are commonplace. Over the years, perhaps the most significant change for the provision of financial services has been the rapid development and use of new technologies. Because of vast improvements in technology, transactions today can be completed in a small fraction of the time it would have taken to complete similar transactions when the current regulatory structure was created.

These factors, plus the availability of new financial products and services, have raised the public's expectations for what the financial services industry should provide. In an effort to meet clients' needs, financial institutions – which previously limited their activities only to brokerage, insurance, or traditional banking – have increasingly entered several of these lines of business. When the regulatory structure for financial services was first created, each type of entity served a distinct function. Under those circumstances, it made sense to maintain a separate regulatory structure for banks, insurance companies, and broker-dealers. This regulatory structure, however, has not changed over time to reflect the changes that have transformed the financial services industry. The old regulatory structure – the structure under which the industry operates today – has become outdated.

We fully support the idea that the current regulatory structure should be replaced by one that reflects the current state of the financial services industry. This undertaking,

however, should be made with great care in order to preserve public confidence in, and the health of, the entire financial services industry.

Competitive Equality

Competitive equality and protection of public confidence in the U.S. financial services industry should be of concern to everyone. There is no doubt that competition will continue in the industry, and that some entities will thrive while others will not. However, whether a firm succeeds or fails in the marketplace should be the result of that firm's ability to provide needed financial products and services to the public, not due to a regulatory structure that allows one type of entity to provide all types of financial services to the public but restricts other types of firms to providing only a portion of those products and services.

We believe that competitive equality can exist only if restrictions on the ability to provide a full range of financial products and services to the public are lifted to the same degree for *all* industry participants. If banks are allowed to engage in the traditional business of brokerage firms, then brokerage firms must be allowed to engage in the business of banks. Industry participants should be able to own thrifts, banks, brokerages, and insurance companies without restriction. Moreover, the type of charters for financial institutions which currently exist should continue to be available. These charters have proven beneficial in the successful business plans of all types of financial services providers throughout the country. The elimination of the thrift charter, in particular, could significantly damage the growth and profitability of our firm by curtailing the range of financial services available to our clients.

The Need for Functional Regulations

It is also equally important that the various entities be regulated identically according to the activities they perform, not by how the entity is structured or what the entity is called. Purchasers of a particular financial product should have the same protection regardless of the type of entity from which the product is purchased. All entities should be subject to the same set of capitalization requirements. Investors deserve to receive the same disclosure concerning the product. Individuals selling similar products and services should be subject to the same qualification requirements, regardless of the type of entity that is their employer. All entities providing the same products and services should be required to have the same level of supervisory structure, and supervisory personnel should be subject to the same qualification requirements. In short, an individual should be accorded the same protection for the purchase of the same financial products, regardless of the type of entity from which the product was purchased.

We believe that the only way to ensure that these beneficial changes are made is through true functional regulations. The various regulators of the financial services industry have differing philosophies based on the history of their particular industry segments. The Securities and Exchange Commission focuses on the integrity of the markets and the protection of investors. Banking regulators focus on the safety and soundness of banking institutions. Neither of these regulatory approaches is inappropriate, but the differences in these various regulators' missions can lead to divergent rules and various interpretations of the same financial activity.

Clearly, the public, including the entire financial services industry, is best served by having regulatory agencies oversee the areas in which they have the most expertise and experience. The SEC should regulate securities activity and the banking regulators should regulate banking activity regardless of the type of entity in which the activity takes place. No exceptions or exemptions, including those based on the number of transactions accepted should exist for this division in regulatory jurisdiction. This will assure consistency in regulation and public protection, and will prevent creating an unwarranted competitive advantage for one type of entity over another. We also believe this will promote the efficiency and effectiveness of each regulatory agency by preventing duplication of activities. Each regulatory body can concentrate on what it does best, and on what each has done so well in the past to assist in making the U.S. capital markets and financial services industry the best in the world.

Conclusion

I sincerely appreciate the opportunity to share our views with the Committee. I hope that you agree that it is time to modernize the regulatory structure of the financial services industry, and that this modernization effort should be accomplished in a manner that promotes competitive equality and maintains public confidence and protection.